Report

of the

Examination of

Integrity Mutual Insurance Company

Appleton, Wisconsin

As of December 31, 2003

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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April 28, 2005

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

INTEGRITY MUTUAL INSURANCE COMPANY
Appleton, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Integrity Mutual Insurance Company (the company or Integrity) was conducted in 1999 as of December 31, 1998. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The planning and examination of Integrity Mutual Insurance Company was coordinated with the Ohio Department of Insurance examination of Grange Mutual Casualty Company and its affiliates. In accordance with office standards, the examiner placed reliance on the work performed by the Ohio Department of Insurance when deemed appropriate.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The company was organized and commenced business in 1933 as a nonassessable mutual property and casualty insurer.

On December 19, 2001, Integrity affiliated with Grange Mutual Casualty Company (Grange) of Columbus, Ohio. Under the affiliation, Integrity remains a separate entity and operates independently from Grange.

In 2003, the company was licensed in and wrote direct premium in the following states:

Wisconsin	$52,796,687	60.7%
Minnesota	23,703,459	27.2
Iowa	10,519,548	12.1
Total	$87,019,694	100.0%

The major products marketed by Integrity include homeowner's multiple peril, commercial multiple peril, worker's compensation, private passenger auto liability, and auto physical damage. The major products are marketed through approximately 2,000 independent agents operating out of 151 agencies. Agents are compensated according to the following commission schedule:

Auto Lines (other than non-standard)	15%
Nonstandard Auto	10% - 12.5%
Homeowner's	20%
Inland Marine	20%
Fire	20%
Liability Lines (except Garage and Umbrella Liability)	20%
Business Owners and other specified commercial coverages	15% – 20%
Worker's Compensation	5% – 7%
All Other Lines	15%

IMIC has two profit-sharing plans for its agents. For all lines other than nonstandard auto, the plan is offered to agents writing a minimum of $200,000 of premium in a calendar year. The bonuses paid are based on a combination of 1-year and 3-year results and agents generating sufficient profit earn bonuses ranging from 0.2% - 8.67% of their net earned premium. For nonstandard auto, the plan is offered to agents writing a minimum of $50,000 of premium in a calendar year. The bonuses paid are based on 1-year results and agents generating sufficient profit earn bonuses ranging from 0.5% - 6.0% of net earned premium.

The following table is a summary of the net insurance premiums written by the company in 2003. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 287,865	$ 875,258	$ 287,865	$ 875,258
Allied lines	191,004	513,548	191,004	513,548
Farmowner's multiple peril		800,608		800,608
Homeowner's multiple peril	11,506,614	6,785,183	11,506,614	6,785,183
Commercial multiple peril	17,048,979	1,379,940	17,048,979	1,379,940
Inland marine	1,266,543	660,138	1,266,543	660,138
Earthquake		110,144		110,144
Group accident and health		9,801		9,801
Other accident and health		152		152
Worker's compensation	22,859,180	1,416,821	23,140,963	1,135,038
Other liability - occurrence	2,034,695	1,293,062	2,034,695	1,293,062
Other liability – claims made		34,696		34,696
Products liability - occurrence	20,957	144,295	20,957	144,295
Private passenger auto liability	12,599,892	13,111,473	12,599,893	13,111,472
Commercial auto liability	6,089,362	1,994,870	6,089,363	1,994,869
Auto physical damage	13,114,603	10,338,291	13,114,602	10,338,292
Burglary and theft		15,493		15,493
Total All Lines	$87,019,694	$39,483,773	$87,301,478	$39,201,989

Integrity participates in a reinsurance agreement wherein 100% of the net premiums, losses, loss adjustment expenses and underwriting expenses of all the companies are pooled and redistributed. In 2003, Integrity accounted for 8.56% of the direct premiums written by the five-member pool. Their portion of the pool is 4%.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. The board is divided into two classes. The first class of directors (Class 1) contains five directors from Grange, and the second class of directors (Class 2) contains four directors from Integrity. Most actions taken by the board of directors require a simple majority vote as long as a quorum is present. A quorum would be a majority of directors (five) with at least one director from each class present. For more complex or larger scope items (i.e., merger, dissolution, etc.), a super majority of directors is needed to take action. For a super majority, at least seven directors would constitute a quorum and all seven would have to cast an affirmative vote.

Directors are elected annually to fill expiring terms and serve for four-year terms. Officers are elected at the board's annual meeting. The board members currently receive a total of $20,000 annually for serving on any board in the holding company system.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Douglas P. Buth Appleton, WI	Chief Executive Officer Appleton Papers Inc.	2008
Roger A. Formisano Madison, WI	Director, UW Madison School of Bus.	2008
Franklin C. Jesse Minneapolis, MN	Attorney, Gray, Plant & Mooty	2008
Randall J. Montelone Columbus, OH	Chief Financial Officer, Grange Insurance	2006
Michael V. Parrott Ft. Wayne, IN	President, ICON, Inc.	2006
Thomas S. Stewart Columbus, OH	Retired	2006
Philip W. Stichter Columbus, OH	Director, Griffith Foundation	2006
Richard J. Schinler Appleton, WI	President & Chief Executive Officer Integrity Mutual Insurance	2008
Philip H. Urban Columbus, OH	President & Chief Executive Officer Grange Insurance	2006

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2003 Compensation
Richard J. Schinler	President / Chief Executive Officer	$308,720
Daniel J. Schmidt	Vice President – Insurance Operations	151,852
Mary Jo Buchberger	Vice President – Finance	143,620
Timothy L. Roberts	Vice President – Claims	144,671
Richard A. Maronek	Vice President – Information Systems	109,386
Mary A. Stadel	Vice President – Human Resources	108,053

Committees of the Board

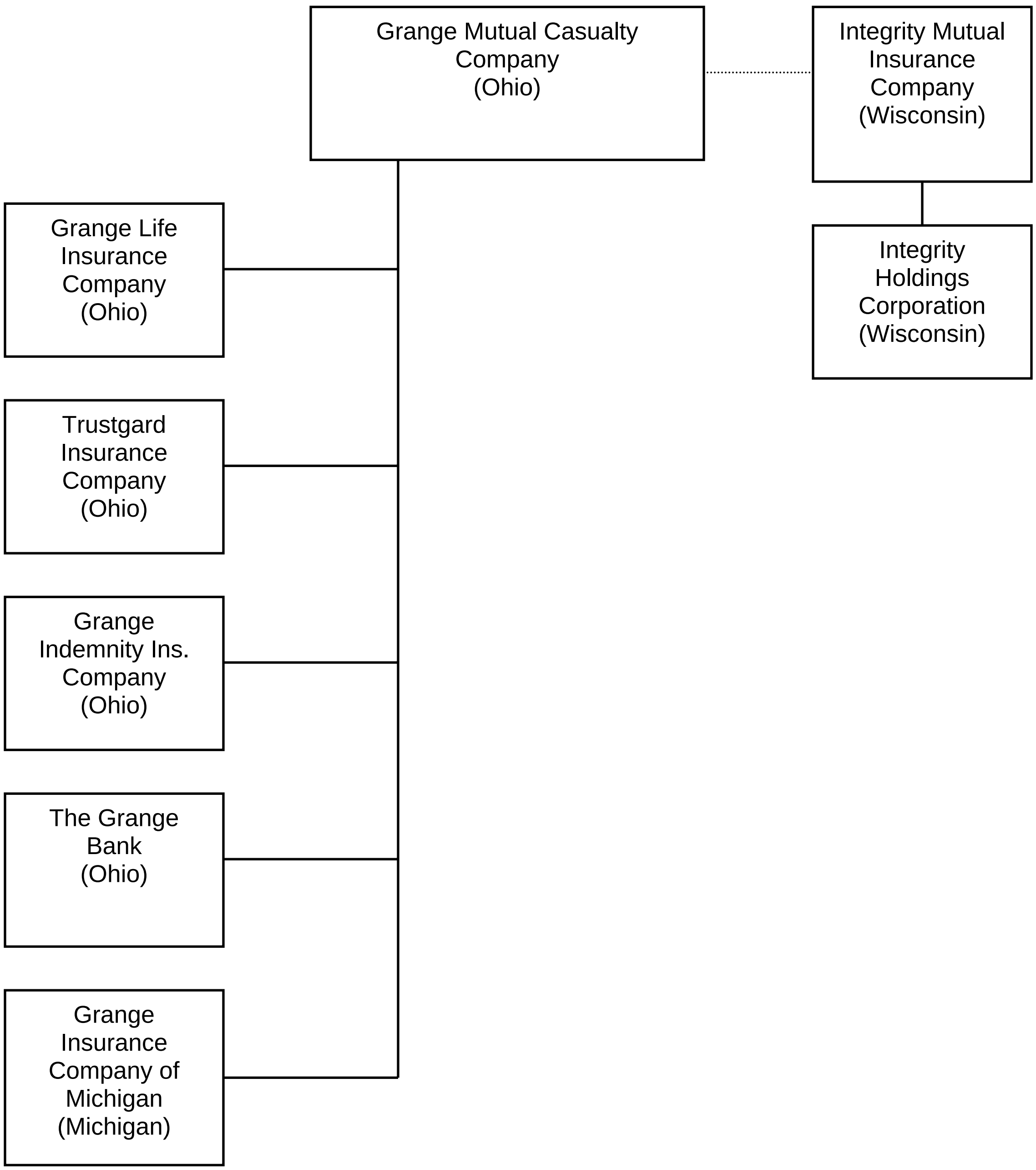
The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Human Resources Committee	Audit Committee
Thomas Stewart (Chair)	Roger Formisano (Chair)
Douglas Buth	Franklin Jesse, Jr.
Philip Stichter	Michael Parrott
Richard Schinler	Randall Montelone
Philip Urban	Richard Schinler
	Philip Urban

IV. AFFILIATED COMPANIES

Integrity is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2003



Grange Mutual Casualty Company

Grange Mutual Casualty Company became an insurance holding company system by incorporating GM Premium Budget Incorporated, an Ohio corporation, a wholly owned stock subsidiary, on October 5, 1962. Grange Mutual Casualty Company is a mutual property and casualty insurance company whose members are its policyholders. Its main lines of business include private passenger auto liability, auto physical damage, and homeowner's multiple peril. In 2003, Grange Mutual Casualty Company accounted for 82.08% of the direct premiums written by the five-member pool. As of December 31, 2003, the audited financial statements of Grange Mutual Casualty Company reported assets of $1,177,274,244, liabilities of $707,978,647, and capital and surplus of $469,295,597. Operations for 2003 produced net income of $38,112,733.

Trustgard Insurance Company

Trustgard Insurance Company was organized on July 1, 1981. Its lines of business include private passenger auto liability, auto physical damage, and worker's compensation insurance. In 2003, Trustgard Insurance Company accounted for 2.46% of the direct premiums written by the five-member pool. As of December 31, 2003, the audited financial statements of Trustgard Insurance Company reported assets of $43,289,953, liabilities of $28,600,016, and capital and surplus of $14,689,937. Operations for 2003 produced net income of $1,936,758.

Grange Indemnity Insurance Corporation

Grange Indemnity Insurance Corporation was organized on March 10, 1995. Its lines of business include private passenger auto liability and auto physical damage. In 2003, Grange Indemnity Insurance Corporation accounted for 5.07% of the direct premiums written by the five-member pool. As of December 31, 2003, the audited financial statements of Grange Indemnity Insurance Corporation reported assets of $58,120,749, liabilities of $39,301,503, and capital and surplus of $18,819,246. Operations for 2003 produced net income of $2,654,005.

Grange Insurance Company of Michigan

Grange Insurance Company of Michigan was organized on April 23, 2001. Its main lines of business include private passenger auto liability, auto physical damage, and homeowner's multiple peril. In 2003, Grange Insurance Company of Michigan accounted for 1.83% of the direct premiums written by the five-member pool. As of December 31, 2003, the audited financial statements of Grange Insurance Company of Michigan reported assets of $28,738,311, liabilities of $16,551,005, and capital and surplus of $12,187,306. Operations for 2003 produced net income $1,637,368.

Agreements with Affiliates

Integrity has a cost-sharing agreement with Grange Mutual Casualty Company. Under the terms of the agreement, Integrity and Grange agree to provide services to each other as requested at actual cost and usage.

Integrity also has a pooling agreement with Grange Mutual Casualty Company. See section captioned "Reinsurance" for a description of the agreement.

V. REINSURANCE

The company's reinsurance treaties are summarized below. All contracts contain an insolvency clause, intermediary clause, errors and omissions clause, arbitration clause and a service of suit clause applicable to foreign reinsurers, which meet the guidelines prescribed by the National Association of Insurance Commissioners.

Affiliated Pooling Agreement

1.	Reinsurer:	Various Affiliated Fire and Casualty Insurers
	Type of contract:	Intercompany Reinsurance pooling agreement
	Effective date:	January 1, 2002
	Term:	Continuous
	Business covered:	All Lines
	Company retention:	Integrity cedes 100% of its underwriting results after cessions to nonaffiliated reinsurers and assumes 4% of the group's underwriting results
	Pooling participation:	88% for Grange Mutual Casualty Company, 4% for Trustgard Insurance Company, 2% for Grange Indemnity Insurance Company, 2% for Grange Insurance Company of Michigan, and 4% for Integrity Mutual Insurance Company

Reinsurance Ceded

Grange Mutual Casualty Company participates in all contracts with the exception of the contracts with Everest Reinsurance Company and the MN Workers Compensation Reinsurance Association. The following reinsurance contracts were in effect during the period under examination, through which Integrity ceded its property and casualty business:

1.	Reinsurer:	General Reinsurance Corporation
	Type of contract:	Excess of loss
	Effective date:	January 1, 2004
	Term:	Continuous
	Business covered:	A) Property business defined as insurance classified in the NAIC form of annual statement as fire, allied lines, inland marine, commercial multiple peril, homeowner's multiple peril and farmowner's multiple peril
	Company retention:	A) First $1,000,000 of losses, each occurrence

Reinsurance limits:	A)	100% of $2,000,000 excess of $1,000,000, not to exceed $4,000,000 all losses, each occurrence
Business covered:	B)	Liability business defined as insurance classified in the NAIC form of annual statement as private passenger and commercial auto no-fault (personal injury protection), other private passenger and commercial auto liability (including uninsured and underinsured motorists), other liability, commercial multiple peril, homeowner's multiple peril, and farmowner's multiple peril
Company retention:	B)	First $1,000,000 of losses, each occurrence
Reinsurance limits:	B)	100% of $4,000,000 excess of $1,000,000, each occurrence, not to exceed $15,000,000 all losses, each occurrence

2. Reinsurer: Various

Type of contract:	Casualty Clash – Excess of Loss	
Effective date:	January 1, 2004	
Term:	Continuous	
Intermediary:	Gen Re Intermediaries Corporation	
Business covered:	A)	Liability business defined as insurance classified in the NAIC form of annual statement as private passenger and commercial auto no-fault (personal injury protection), other private passenger and commercial auto liability (including uninsured and underinsured motorists), other liability, commercial multiple peril, homeowner's multiple peril, and farmowner's multiple peril
Company retention:	A)	$5,000,000 of ultimate net loss, per occurrence
Reinsurance limits:	A)	100% of $5,000,000 excess of $5,000,000, each occurrence
Business covered:	B)	Worker's Compensation (all states other than Minnesota)
Company retention:	B)	First $500,000 of losses, each occurrence
Reinsurance limits:	B)	Layer 1: 100% of $500,000 in excess of $500,000, each occurrence
	B)	Layer 2: 100% of $9,000,000 in excess of $1,000,000, each occurrence
	B)	Layer 3: 100% of $10,000,000 in excess of $10,000,000, each occurrence

3. Reinsurer: Workers Compensation Reinsurance Association

Type of contract:	Excess of Loss – Mandatory reinsurance pool
Effective date:	January 1, 1998
Term:	Continuous
Business covered:	Worker's Compensation in Minnesota

	Company retention:	$360,000 per occurrence
	Reinsurance limits:	No limit
4.	Reinsurer:	General Reinsurance Corporation
	Type of contract:	Automatic Commercial Property Facultative
	Effective date:	January 1, 2004
	Term:	1 year
	Business covered:	Commercial property business
	Company retention:	100% of the first $3,000,000, each occurrence
	Reinsurance limits:	100% of $10,000,000 in excess of $3,000,000, each occurrence
5.	Reinsurer:	Various
	Type of contract:	Property Catastrophe Excess of Loss
	Effective date:	January 1, 2004
	Term:	1 year
	Intermediary:	Guy Carpenter & Company, Inc.
	Business covered:	Fire, allied lines, inland marine, earthquake, homeowner's commercial and farmowner's multiple peril and auto physical damage
	Company retention:	$5,000,000 of ultimate net loss, each occurrence and 5% of excess ultimate net loss
	Reinsuance limits:	Layer 1: 95% of $7,500,000 excess of $7,500,000 Layer 2: 95% of $10,000,000 excess of $15,000,000 Layer 3: 95% of $15,000,000 excess of $25,000,000 Layer 4: 95% of $25,000,000 excess of $40,000,000 Layer 5: 80% of $35,000,000 excess of $65,000,000 Layer 6: 80% of $50,000,000 excess of $100,000,000
6.	Reinsurer:	Everest Reinsurance Company
	Type of contract:	Automatic Facultative
	Effective date:	March 23, 1993
	Term:	Continuous
	Business covered:	Personal and Commercial Umbrella
	Company retention:	10% of the first $1,000,000, each occurrence
	Reinsurance limits:	90% of the first $1,000,000, each occurrence and 100% of $4,000,000 in excess of $1,000,000

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Integrity Mutual Insurance Company
Assets
As of December 31, 2003

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$40,161,151	$	$40,161,151
Stocks:			
Preferred stocks	2,636,650		2,636,650
Common stocks	16,970		16,970
Real estate:			
Occupied by the company	2,248,347		2,248,347
Cash	3,541,089		3,541,089
Short-term investments	2,148,605		2,148,605
Investment income due and accrued	397,680		397,680
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	6,626,310	47,093	6,579,217
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	653,523	3,654	649,869
Reinsurance:			
Amounts recoverable from reinsurers	263,268		263,268
Net deferred tax asset	1,809,038	575,927	1,233,111
Electronic data processing equipment and software	100,555		100,555
Furniture and equipment, including health care delivery assets	85,352	85,352	
Write-ins for other than invested assets:			
Minimum Pension Funding	499,527	499,527	
Prepaid Expenses	7,839	7,839	
Expense Advances	400	400	
Write-ins from the overflow page	45,925	25,015	20,910
Total Assets	$61,242,229	$1,244,807	$59,997,422

Integrity Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2003

Losses		$14,093,408
Loss adjustment expenses		3,375,019
Commissions payable, contingent commissions, and other similar charges		507,940
Other expenses (excluding taxes, licenses, and fees)		774,014
Taxes, licenses, and fees (excluding federal and foreign income taxes)		578,768
Current federal and foreign income taxes		220,837
Unearned premiums		14,255,999
Advance premium		346,423
Dividends declared and unpaid:		
Policyholders		1,463,992
Ceded reinsurance premiums payable (net of ceding commissions)		2,414,619
Amounts withheld or retained by company for account of others		253,790
Remittances and items not allocated		49,995
Payable to parent, subsidiaries, and affiliates		2,321,984
Write-ins for liabilities:		
Reserve for Checks Written Off		83,424
Total Liabilities		40,740,212
Write-ins for special surplus funds:		
Guarantee Fund for Non-Assessability	$ 1,000,000	
Unassigned funds (surplus)	18,257,210	
Surplus as Regards Policyholders		19,257,210
Total Liabilities and Surplus		$59,997,422

Integrity Mutual Insurance Company
Summary of Operations
For the Year 2003

Underwriting Income		
Premiums earned		$37,535,216
Deductions:		
Losses incurred	$22,090,028	
Loss expenses incurred	3,748,997	
Other underwriting expenses incurred	11,329,417	
Total underwriting deductions		37,168,442
Net underwriting gain		366,774
Investment Income		
Net investment income earned	1,791,699	
Net realized capital gains	464,236	
Net investment gain		2,255,935
Other Income		
Net loss from agents or premium balances charged off	(255,004)	
Finance and service charges not included in premiums	338,952	
Write-ins for miscellaneous income	40,916	
Total other income		124,364
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		2,747,073
Dividends to policyholders		106,642
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		2,640,431
Federal and foreign income taxes incurred		922,162
Net Income		$ 1,718,269

Integrity Mutual Insurance Company
Cash Flow
For the Year 2003

Premiums collected net of reinsurance			$39,128,808
Net investment income			2,037,874
Miscellaneous income			124,363
Total			41,291,046
Benefit and loss related payments		$21,112,980	
Commissions, expenses paid, and aggregate write-ins for deductions		14,672,211	
Dividends paid to policyholders		(385,280)	
Federal and foreign income taxes paid (recovered)		221,000	
Total deductions			35,620,911
Net cash from operations			5,670,134
Proceeds from investments sold, matured, or repaid:			
Bonds	$12,611,029		
Stocks	4,949,266		
Real estate	649,171		
Net gains on cash and short-term investments	140		
Total investment proceeds		18,209,606	
Cost of investments acquired (long-term only):			
Bonds	17,519,673		
Stocks	4,004,364		
Real estate	9,505		
Miscellaneous applications	2,153		
Total investments acquired		21,535,695	
Net cash from investments			(3,326,089)
Net cash from financing and miscellaneous sources			(679,105)
Reconciliation			
Net change in cash and short-term investments			1,664,940
Cash and short-term investments, December 31, 2002			4,024,754
Cash and short-term investments, December 31, 2003			$ 5,689,694

Integrity Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2003

Assets			$59,997,422
Less liabilities			40,740,212
Adjusted surplus			19,257,210
Annual premium:			
Individual accident and health	$ 152		
Factor	15%		
Total		$ 22	
Group accident and health	9,801		
Factor	10%		
Total		980	
Lines other than accident and health	39,085,393		
Factor	20%		
Total		7,817,078	
Compulsory surplus (subject to a minimum of $2 million)			7,818,080
Compulsory surplus excess (or deficit)			$11,439,130
Adjusted surplus (from above)			$19,257,210
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)			10,945,312
Security surplus excess (or deficit)			$ 8,311,898

Integrity Mutual Insurance Company
Reconciliation and Analysis of Surplus
For the 5-Year Period Ending December 31, 2003

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2003	2002	2001	2000	1999
Surplus, beginning of year	$17,208,014	$15,942,203	$14,092,867	$16,253,438	$15,395,743
Net income	1,718,269	1,542,432	(3,243,570)	(807,636)	1,527,025
Net unrealized capital gains or (losses)	369,763	349,349	225,079	(140,409)	(593,886)
Change in net deferred income tax	232,277	(1,594,681)	244,827	0	0
Change in nonadmitted assets	(271,113)	968,710	(65,168)	167,808	21,718
Change in excess of statutory reserves over statement reserves			0	(1,380,334)	(97,162)
Cumulative effect of changes in accounting principles			4,688,168		
Surplus, end of year	$19,257,210	$17,208,014	$15,942,203	$14,092,867	$16,253,438

Integrity Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2003

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2003	2002	2001	2000	1999
#1	Gross Premium to Surplus	657.0%	643.0%	316.0%	338.0%	249.0%
#2	Net Premium to Surplus	204.0	152.0	256.0	280.0	182.0
#3	Change in Net Writings	50.0*	(36.0)*	4.0	33.0*	8.0
#4	Surplus Aid to Surplus	1.0	1.0	1.0	2.0	3.0
#5	Two-Year Overall Operating Ratio	98.0	107.0*	106.0*	97.0	95.0
#6	Investment Yield	3.8*	4.4*	2.2*	5.7	5.3
#7	Change in Surplus	7.0	2.0	14.0	(8.0)	7.0
#8	Liabilities to Liquid Assets	82.0	84.0	78.0	78.0	73.0
#9	Agents' Balances to Surplus	34.0	33.0	3.0	3.0	2.0
#10	One-Year Reserve Development to Surplus	(5.0)	(6.0)	(1.0)	(4.0)	1.0
#11	Two-Year Reserve Development to Surplus	(3.0)	(13.0)	(7.0)	(4.0)	(24.0)
#12	Estimated Current Reserve Deficiency to Surplus	(1.0)	(16.0)	(2.0)	33.0*	13.0

As noted earlier, in December of 2001, Grange Mutual Casualty Company affiliated with the company. The company was then added to the affiliated pooling arrangement with a 4% participation in the net retained business. Several exceptional ratios were a result of these changes.

Ratio No. 3 measures the change in writings from the prior year. The 2002 and 2003 exceptional ratios were due to first-year pooling adjustments. The exceptional ratio in 2000 was due to 1999 reinsurance adjustments based on recommendations made in the previous examination.

Ratio No. 5 measures the company's overall operating results during the past two years. The exceptional result in 2002 was attributable to the expense ratio being artificially high due to the net written premium adjustment for the first year of pooling, thus inflating the operating ratio. The exceptional result in 2001 was due to expenses associated with the affiliation. In 2001, the company had approximately $900,000 of expenses associated with the affiliation, including consultants, attorneys, and travel.

Ratio No. 6 measures the average return on the company's investments. The exceptional investment yield is attributed to the company's conservative investment strategy, which provides traditionally lower investment returns.

Ratio No. 12 measures estimated current reserve deficiency to surplus. The exceptional result in 2000 was due to stop-loss recoverables of $4,000,000.

Growth of Integrity Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2003	$59,997,422	$40,740,212	$19,257,210	$ 1,718,269
2002	53,561,435	36,353,422	17,208,014	1,542,432
2001	57,854,410	41,912,206	15,942,203	(3,243,570)
2000	52,029,164	37,936,297	14,092,867	(807,636)
1999	49,297,989	33,044,551	16,253,438	1,527,025
1998	47,171,646	31,775,903	15,395,743	712,850

Year	Direct Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2003	$87,019,694	$39,201,989	$37,535,216	68.8%	28.9%	98.1%
2002	65,375,476	26,220,659	32,606,153	73.7	37.8	111.4
2001	50,335,080	40,880,942	39,489,138	74.9	32.4	111.9
2000	47,537,161	39,412,891	35,171,823	72.6	30.3	108.2
1999	40,396,135	29,543,085	28,496,289	60.4	35.1	100.3
1998	34,603,292	27,448,737	26,602,771	69.7	33.4	107.2

The company has grown significantly over the last five years. The company's direct premiums written have increased 151%, net premiums written have increased 43%, and premiums earned have increased 41% over the past five years. The increase is due to an increase in policyholders and an increase in rates. To sustain such growth, the company's surplus has increased 25% over the past five years.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2003, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were seven specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Reinsurance—It is recommended that when the company has a multi-year aggregate excess of loss reinsurance agreement with an experience account, under which it is obligated to pay one or more future years of reinsurance premium because the experience account is negative, the company should establish an appropriate liability for the future reinsurance premium payments.

   Action—Compliance

2. Aggregate Write-Ins for Liabilities—It is recommended that the company, on all future annual statements, report suspense amounts as Remittances and Items Not Allocated in accordance with the NAIC Annual Statement Instructions - Property/Casualty.

   Action—Compliance

3. Aggregate Write-Ins for Liabilities—It is recommended that the company, on all future annual statements, report advance premium amounts as either a portion of the unearned premium reserve or as an aggregate write-in for liabilities, “Advance Premium.”

   Action—Compliance

4. Contingent Commissions—It is recommended that the company properly report direct bill commissions unpaid as either an offset to agents’ balances or uncollected premiums or as a corresponding write-in liability, in accordance with the NAIC Accounting Practices and Procedures Manual - Property/Casualty.

   Action—Compliance

5. Information Technology Environment—It is recommended that the company perform periodic reviews of the current access allowed to determine if access allowed is commensurate with the employees' job description.

   Action—Compliance

6. Information Technology Environment—It is recommended that the company create and document procedures for the introduction of approved code changes into the production environment and to limit all code changes in production to one person, who, ideally, does not have programming responsibilities.

   Action—Compliance

7. Disaster Recovery Plan—It is recommended that the company integrate the comments listed above when updating its Disaster Recovery Plan.

   Action—Noncompliance, see comments in the summary of current examination results.

Summary of Current Examination Results

Fidelity Bond Coverage

The review of the fidelity bond coverage revealed that the company currently has coverage up to $500,000. The suggested minimum amount of fidelity insurance under guidelines published by the National Association of Insurance Commissioners (NAIC) in the NAIC Financial Condition Examiners' Handbook for a company of its size, on a stand-alone basis, ranges from $700,000 to $800,000. It is suggested that the company maintain adequate levels of fidelity bond coverage for the employees responsible for the safeguard of assets in compliance with NAIC standards.

Information Technology Environment

The information technology environment for Integrity was reviewed. The company's systems are not complex and the control environment appeared to adequately secure the company's data. However, two issues of concern were noted.

First, it was revealed that the company only required forced password changes for its systems and applications every 120 days. The NAIC Financial Condition Examiners' Handbook specifies that companies should force password changes at least quarterly to reduce the likelihood of passwords being inappropriately used by others. It is recommended that the company force password changes on at least a quarterly basis for all systems and applications utilized by the company.

Second, it was revealed that the company had not formally developed an internet use policy. Internet use policies are important to identify the appropriate business usage of the internet and properly communicate these policies to the employees. It is recommended that the company develop and communicate an internet use policy to its employees.

Disaster Recovery Plan

The prior examination noted that the company's disaster recovery plan had not addressed the following items:

1. The plan did not contain detailed information with respect to alternative facilities in the event the current location is damaged or destroyed.

2. The plan did not contain procedures documenting the restoration of the computer systems, or manual procedures in the event computer systems are not operational.

3. The plan did not contain documentation describing the process followed to ensure necessary supplies maintained offsite are periodically updated on at least a quarterly basis.

4. The plan does not appear to be updated in a timely manner; the plan contained out-dated material.

The current examination noted that the company had not adequately addressed the comments made in the previous examination. In addition, the company has not updated the disaster recovery plan to reflect infrastructure changes that has resulted from its affiliation with Grange. It is again recommended that the company integrate the comments listed above when updating its Disaster Recovery Plan. Once completed the plan should be tested and updated on an annual basis.

VIII. CONCLUSION

On December 19, 2001, Integrity affiliated with Grange Mutual Casualty Company of Columbus, Ohio. Under the affiliation, Integrity remains a separate entity and operates independently from Grange. Integrity assumes 4% of the Grange pool.

The examination resulted in three recommendations and one suggestion. No adjustments to surplus or reclassifications were made. The company was in compliance with all but one of the recommendations made on the previous examination.

The company has grown significantly over the last five years. The company's direct premiums written have increased 151%, net premiums written have increased 43%, and premiums earned have increased 41% over the past five years. The increase is due to an increase in policyholders and an increase in rates. To sustain such growth, the company's surplus has increased 25% over the past five years.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Fidelity Bond Coverage—It is suggested that the company maintain adequate levels of fidelity bond coverage for the employees responsible for the safeguard of assets in compliance with NAIC standards.

2. Page 23 - Information Technology—It is recommended that the company force password changes on at least a quarterly basis for all systems and applications utilized by the company.

3. Page 23 - Information Technology—It is recommended that the company develop and communicate an internet use policy to its employees.

4. Page 24 - Disaster Recovery Plan—It is again recommended that the company integrate the comments listed above when updating its Disaster Recovery Plan.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
DuWayne Kottwitz	Insurance Financial Examiner
Karl Albert	Insurance Financial Examiner

Respectfully submitted,

Rick Anderson
Examiner-in-Charge

XI. APPENDIX – SUBSEQUENT EVENTS

Effective June 30, 2005, Integrity entered into a subscription agreement with its affiliate Grange Life Insurance Company (Grange Life) for the purchase of 21,000 shares of Grange Life's common stock. The aggregate purchase price was $6,825,000 and gave Integrity a 21% ownership in Grange Life. The agreement allows or requires Integrity to sell the shares of common stock back to Grange Life or Grange Mutual Insurance Company, depending on the circumstances of the termination of the affiliation agreement.